



## **China Netcom and Telefónica Internacional S.A Signed Strategic Alliance Agreement**

Hong Kong, 14 November 2005 -- China Netcom Group Corporation (Hong Kong) Limited (“**China Netcom**” or “**the Company**”) (HKSE: 0906; NYSE: CN), a leading telecommunications operator in China and the Asia Pacific region, is pleased to announce that it formally entered into a Strategic Alliance Agreement (“**SAA**”) with Telefónica Internacional S.A. (“**Telefónica**”) on 14 November 2005.

The SAA will become effective after the completion of the acquisition of the additional shares by Telefónica, representing the difference between the existing stake of 5 percent of the outstanding issued Shares held by Telefónica and 9.9% of the entire issued share capital of the Company outstanding from time to time ( the "**Additional Portion**") and the obtaining of all necessary PRC governmental, regulatory or similar consents and board approvals required by each party to perform its obligations under the SAA having been obtained.

Pursuant to the terms of the SAA, the Company and Telefónica will use reasonable efforts to negotiate in good faith a strategic relationship for cooperation in the following areas within 6 months:

- International business area (including voice and IP Peering and IP MPLS);
- The existing overseas business of the Company and its parent company, subject to due diligence, agreeing on valuation and obtaining necessary approvals;
- Subject to due diligence, agreeing on valuation and obtaining necessary approvals, the provision of telecommunication businesses and services in the southern provinces in the PRC;
- Call center business, including worldwide call center services for the Beijing Olympics 2008 and joint call center for outsourcing services;
- Co-operation and sharing in the areas of business development, network operations, customers, customer acquisition and management, technology implementation, sales, marketing and branding in the PRC;
- management exchange involving senior managers from each of Telefónica and the Company for every six months;
- Co-operation in the purchasing of technology, end-user equipment, infrastructure, distribution or usage rights and other components required to provide both fixed-line, broadband and wireless communications services;
- Technological assistance and knowledge transfer provided by Telefónica in the areas of value-added services, business solutions for small-and-medium-sized enterprises, IPTV solutions and other related areas; and
- The provision of mobile service when any mobile service licence has been issued to the Company or its parent company;

### Exclusivity and Non-Compete

Telefónica shall ensure that the Company will be selected as its sole partner within the PRC for any form of co-operation in the telecommunications business and has agreed not to compete, in the PRC, with the business of the Company at any time during the term of the SAA or for so long as the Company remains a sole partner of Telefónica, whichever is longer.

The Company has undertaken to Telefónica that, for a period of 6 months from the date of the SAA, it will not and its Affiliates will not enter into any advanced discussion, negotiation or enter into any agreement or arrangement with any person other than Telefónica relating to possible cooperation in the existing overseas business of the Company and its parent company, and the possible provision of telecommunication businesses and services in the southern provinces in the PRC.

The SAA does not affect any existing agreements, arrangements or memoranda of understandings currently under discussion between the Company, its parent company and/or any of their respective Affiliates with any third parties, including but not limited to PCCW Limited.

### Telefónica's Ownership and Board Representation

When Telefónica becomes the beneficial owner of not less than 9.9% in the entire issued share capital of the Company, it will be entitled to nominate a second director to the board of the Company. The number of representatives that Telefónica is entitled to appoint to the board shall be increased if its shareholding interest in the Company increases. In addition, subject to board approval, directors nominated by Telefónica shall be entitled to sit on the strategic planning committee or other committees of the Company. The nomination and appointment of the directors nominated by Telefónica shall be in compliance with the articles of association of the Company, and shall be subject to compliance with qualification requirements under the Listing Rules and applicable laws.

Subject to certain exceptions, the Additional Portion held by Telefónica in the Company is subject to a three-year lock-up period and is further limited to dispose of such Additional Portion after the expiration of the lock-up period.

The Company has agreed that, subject to applicable laws and certain exceptions described in the SAA, as long as Telefónica is the beneficial owner of not less than 9.9% of the entire issued share capital of the Company outstanding from time to time, the Company will treat Telefónica equally with the other public shareholders of the Company and will give Telefónica an equal opportunity as other public shareholders to maintain its proportionate interest in the Company immediately prior to any securities issuance.

Telefónica also undertakes that it will not, without the prior written consent of the Company, increase its ownership in the Company in a way that would result in the Company not being able to maintain its minimum public float.

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***About China Netcom:***

China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") is a leading fixed-line telecommunications operator in China and a leading international data communications operator in the Asia-Pacific region. Its northern service region in China consists of Beijing Municipality, Tianjin Municipality, Hebei Province, Henan Province, Shandong Province, Liaoning Province, Heilongjiang Province, Jilin Province, Neimenggu Autonomous Region and Shanxi Province. Its southern service region in China consists of Shanghai Municipality and Guangdong Province. China Netcom is the dominant provider of fixed-line telephone services, broadband and other Internet-related services, and business and data communications services in its northern service region in China. China Netcom primarily targets business and residential customers in selected high-density areas in its southern service region in China. China Netcom is also the only telecommunications company in China that operates an extensive network and offers international data services in the Asia-Pacific region.

***About Telefónica:***

Telefónica is a 100% listed company, with more than 1.5 million direct shareholders (according to separate records in favour of individuals and corporations). Its share capital currently comprises 4,921,130,397 ordinary shares that are traded on the Spanish Stock Market (Madrid, Barcelona, Bilbao and Valencia) and on those in London, Paris, Frankfurt, Tokyo, New York, Lima, Buenos Aires and São Paulo and the SEAQ International Exchange in London. Telefónica is one of the largest and most internationally integrated telecommunications operators in the world. At present, Telefónica is valued at €66.5 billion and is the third largest telecommunications operator in the world. Telefónica provides services to 140 million customers worldwide. At the same time, Telefónica is also one of the first telecommunication companies that started operating internationally. Currently, it is one of the telecommunication companies which has the greatest number of operations worldwide, and has extensive experience in international telecommunication operations. Telefónica has developed businesses in more than 18 countries, mostly in the European and Latin American markets. 68% of its customers are international customers and the EBITDA generated from its international operations was 31% and it holds a leading position among major global telecommunication operators.